

**CALIFORNIA COMMISSION
FOR
ECONOMIC DEVELOPMENT**

2003 ANNUAL REPORT

CRUZ M. BUSTAMANTE
Lieutenant Governor
State of California



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT



Dear Californians:

I am pleased to present this report of the California Commission for Economic Development (CED). The Commission's activities in addressing the state's economic needs and California's economic outlook are discussed in the pages ahead.

In the wake of the recent recession and California's challenge in adapting to a technology sector that is struggling to recover from some large-scale setbacks, the news on the economy is mixed. Wage growth lags behind the inflation rate, new job creation remains sluggish and jobs are being lost to offshore businesses that enjoy lower overhead costs. On the other hand, housing construction is robust, small business formation continues to be strong and the state remains a cauldron of technological creativity and economic innovation.

Due to the vast diversity of California's economy, the Commission focused on a number of crucial areas, including new approaches for strengthening the manufacturing sector, global trade expansion and boosting the state's vital aerospace industry. As the CED continues with its work, some of the issues we will be addressing include the support of new and emerging technologies, the aerospace industry and providing highly specialized training to meet future employer demands.

This will mark the first year that the majority of the Commission has been appointed. We are looking forward to the enthusiasm and practical thinking of the business and legislative appointees from the Governor and the Legislature.

With the increasing and inevitable globalization of markets and labor, California must aggressively pursue innovative strategies to keep it at the head of an increasingly competitive world economy. The Commission looks forward to the responsibility of advancing this mission.

With kindest regards,

A handwritten signature in blue ink that reads "Cruz M. Bustamante".
CRUZ M. BUSTAMANTE

Lieutenant Governor



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

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CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

ABOUT THE COMMISSION

The California Commission for Economic Development (CED) was established by statute in 1971 to serve as a bipartisan advisory board on economic development to the executive and legislative leadership of the State of California.

The CED served the state under the statutory Chairmanship of Lieutenant Governors from 1971 through 1994, but in the seven years that followed, funding for the Commission was not included in the state budgets. Recognizing the need for additional economic development efforts, the Governor restored funding for the CED in 2002, and the current Chair, Lieutenant Governor Cruz Bustamante, began efforts to rebuild the Commission during the first half of 2002. In mid-2003, the Governor appointed a sufficient number of members to establish a quorum. The CED held its first official meeting in more than 10 years on December 15, 2003.

Appointments, Power and Authority

The CED is comprised of 16 commissioners, 13 of whom were appointed in 2003. Of these, the Senate Rules Committee appointed three, followed by 10 appointments by former Governor Gray Davis. The remaining three appointments are to be made by the Speaker of the Assembly. A list of the CED members and their biographies may be found beginning on page 26.

Pursuant to California Code §14999-14999.10, the Commission has the following powers and authority to carry out its statutory duties:

- (a) To adopt such rules and regulations as it deems advisable with respect to the conduct of its own affairs.
- (b) To hold hearings, make and sign agreements and to do or perform any acts which may be necessary, desirable or proper to carry out its purposes.
- (c) To cooperate with, and secure the cooperation of, any department, division, bureau, commission or other agency of the state, other government, public entity, private organization or corporation to facilitate the execution of its powers and duties.
- (d) To accept any federal funds granted, by act of Congress or by executive order, for all or any of its purposes.
- (e) To accept any gifts, donations, grants or bequests for all or any of its purposes.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

COMMISSION ROSTER

CHAIRMAN

The Honorable Cruz M. Bustamante
Lieutenant Governor, State of California

GOVERNOR'S APPOINTEES

Mr. Pete Garcia
President & CEO
University Mechanical & Engineering
Contractors

Mr. Philip S. Han
Director of Finance
Saban Capital Group

Mr. Larry J. Kosmont
President & CEO
Kosmont Companies

Mr. Gilbert A. Partida
Founder
Frontera Investment, Inc.

Ms. Lisa M. Pitney
Director of Government Relations
The Walt Disney Company

Mr. Lahori Ram
General Manager
Country Club Apartments

Ms. Shari F. Schenk
Director of Marketing
Casey, Gerry, Reed & Schenk, LLP

Mr. Aubry Stone
President and CEO
California Black Chamber of Commerce

Mr. Barry Takallou
President
Crumb Rubber Manufacturers

Mr. Charles C. Woo
Chief Executive Officer
Megatoys

CALIFORNIA STATE SENATE APPOINTEES

The Honorable Michael Machado
California State Senator
District 35

The Honorable Bill Morrow
California State Senator
District 38

The Honorable Nell Soto
California State Senator
District 32

CALIFORNIA STATE ASSEMBLY APPOINTMENTS

(To be made in March 2004)

Commissioner biographies and photographs begin on page 26.



THE CALIFORNIA ECONOMY

Throughout 2003, California's economy continued its gradual recovery from the national recession, while also overcoming market disruptions from a war abroad, a gubernatorial recall, two natural disasters and labor unrest in Southern California. California's diversified industrial base and highly skilled 16.5-million-person workforce have been key to this gradual recovery, as they have in the past, by providing a source of economic stability during times of national recession, war and industry "booms and busts." California's \$1.4 trillion¹ economy remained relatively stable as it dropped in rank from the world's fifth-largest economy in 2001 to the world's sixth-largest in 2002, but still outperformed the other 49 states in nine of the nation's 10 industrial sectors.²

Workforce

Showing signs of recovery from a national recession, California's unemployment rate declined slightly from 6.8 percent in November 2002 to 6.4 percent in November 2003.³ Hourly wages increased by an average of less than one percent for all industries, while the national inflation rate rose nearly two percent from December 2002 to December 2003.⁴

Not all industries shared in the state's slight recovery, with employment gains and losses varying significantly across industries. California lost approximately 55,800 jobs between November 2002 and 2003, mostly within the sectors of manufacturing, information services, professional and business services and government. California's unemployment rates also varied significantly by county, with the highest unemployment rate at 21.4 percent in Colusa County and the lowest at 3.5 percent in Marin County.⁵

Business Climate

California's 2003 business climate received mixed reviews by industry leaders, business owners and economists. Many industries faced overwhelming competition from offshore producers, finding it increasingly difficult to compete as the cost of doing business in California rose. However, many industry representatives claim that the cost of doing business in California is often offset by the caliber of the state's highly skilled workforce, investment in research and development, access to financial capital and the diversified economic base.

1. Bureau of Economic Analysis. Regional Data. Table J.4: Gross State Product (GSP) by Industry and Regions, 2001. December, 2003.

2. Ibid.

3. California Employment Development Department. News Release No.: 03-55. December 12, 2003. p.1.

4. United States Bureau of Labor Statistics. Consumer Price Index Summary. Consumer Price Index: 2003. January 15, 2004.

5. California Employment Development Department. New Release No.: 03-55. December 12, 2003. p.3.



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The top concern of business owners was the condition of the national economy, followed by the rising cost of doing business and maintaining insurance in California, especially with regard to workers' compensation and medical insurance. In a survey conducted by the California Chamber of Commerce in December 2003, more than half of business owners surveyed mentioned that other states had offered them incentives to relocate.

Many of the attributes that make California a more expensive location for business operations also make it one of the best places to start a business. California's talented workforce, natural resources and higher education institutions make it one of the top states in the nation for innovation and new business formation. Though many businesses may find labor costs less expensive outside of California, there are few other places in the world that offer such a comprehensive and diverse array of resources and opportunities.

Three leading indicators of a state's business climate are new business formation, existing business expansion and business turnover. The latest data available from the United States Small Business Administration (SBA) is for 2002 and indicates that the number and size of small businesses in California have steadily increased from the 1990s through 2002.⁶ During a time of national recession, the number of employer-based small businesses increased by nearly four percent.⁷ Small business income,⁸ which is a predictor of business expansion, also increased in 2002 by approximately five percent, for a total of more than \$120 million.⁹ Business turnover demonstrated mixed results in 2002, with the number of bankruptcies decreasing by almost two percent. However, the number of business terminations increased by nearly five percent.¹⁰ Together, these indicators confirm that California's business climate is dynamic and competitive, and that new businesses are opening every year, while established businesses continue to cycle through various stages of expansion and retraction.

Emerging Technologies

Home to the famed Silicon Valley and several other technology clusters, California is the beneficiary of innovative new research and design technologies that have helped to foster a vibrant business climate. Two of the most rapidly developing technologies, biotechnology and nanotechnology, are luring new venture capital investors into the state and driving the growth in this important sector of our economy.

California is home to four of the world's top 10 biotechnology companies: Amgen, Genentech, Chiron and Invitrogen. Together, these companies generated combined sales of \$10 billion in 2002 and grew at an average rate of more than 32 percent. Generating a resurgence of venture capital investment, the life sciences technology sector attracted

6. Small Business Administration. Office of Advocacy. 2003 State Small Business Profile: California. p.1.

7. Ibid.

8. This is measured using non-farm proprietor's income, a partial source of small business income.

9. Small Business Administration. Office of Advocacy. 2003 State Small Business Profile: California. p.1.

10. Ibid.



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\$4.7 billion, or 22 percent of all venture capital funding in 2002.¹¹ Within the global biotechnology industry, the fastest growing fields are proteomics, bioinformatics and biodefense. California-based companies lead these three fields.

Nanotechnology, the science of building products out of components that measure 100 nanometers or less, is expected to generate revenues of \$1 trillion per year within the next 15 years.¹² California's critical mass of science and technology companies, intellectual base and research facilities, as well as our venture capital investment firms, have worked together to make the state the global leader in the nanotechnology industry. In addition, research and development collaborations between the UC system and technology companies are proving vital to the growth of this sector. For example:

"From the pure asset perspective, California blows everyone away. They have the brain power, the capital, the entrepreneurial base. They've been through the entrepreneurial game."

- F. Mark Modzelewski, executive director of the NanoBusiness Alliance

- Intel Corporation is collaborating with the University of California, Berkeley, to develop pervasive computing capabilities based on miniaturized sensors and other devices.
- Hewlett-Packard Company has partnered with researchers from the University of California, Los Angeles, to design molecular electronic devices that function like integrated circuits.
- Nanomix, Inc.'s founders are professors at UC Berkeley.
- Crossbow Technology Corporation's wireless sensors are based on an operating system developed and maintained by UC Berkeley.¹³

Industries

In addition to our workforce, scientific and technical innovation and investment in intellectual capital, California's diversified industrial base has been key to the state's economic recovery and rates of unemployment that are well below the national average. Home to hundreds of industries, California enjoys a diversified industrial base that has been a crucial source of economic stability during times of "boom and bust." From Hollywood to the Bay Area's Silicon Valley, many of California's industries rank at the top of their industrial sectors throughout the nation, and often throughout the world. In the next few pages, the report features four California industries that represent key sectors that provide a snapshot of California's economy.

11 . Yahoo! Finance. Biotechnology industry profile. <http://finance.yahoo.com>.

12. National Science Foundation.

13. Crossbow Technology Corporation. <http://www.xbow.com>.



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Agriculture

In 2001, California's agricultural industry was valued at more than \$25 billion and provided more than 300,000 jobs for the state's working families. The state leads the nation in crop production and the export of agricultural goods and advanced agricultural equipment.¹⁴ California is also one of the world's largest producers of organic produce and specialty agricultural products.

Most of California's agricultural production takes place in the San Joaquin Valley. From March 2002 to March 2003, the number of persons employed in the state's agricultural industry declined from 304,300 to 299,900.¹⁵ Job losses in the tree fruit and nut industries were primarily responsible for this decline.

Hourly wages saw only slight increases throughout most of the agricultural industry, but wages for sectors of field crops, except grains, vegetables and melons, declined. The average hourly wage in the agricultural industry was \$8.45 in March 2003, and increased by \$.08 from the previous year.¹⁶

Table 1

California's Top Five Agriculture Commodities in 2003

<u>Commodity</u>	<u>(\$millions)</u>
1. Dairy	\$3,812
2. Greenhouse/Nursery	\$3,072
3. Grapes	\$2,579
4. Lettuce, All	\$1,278
5. Cattle and Calves	\$1,229

Source: California Department of Food and Agriculture

Table 2

California's Top Five Agriculture Exports

<u>Commodity</u>	<u>(\$millions)</u>	<u>U.S. Rank</u>
1. Vegetables and Preparations	\$2,022.1	1
2. Fruits and Preparations	\$1,725.9	1
3. Tree Nuts	\$1,121.0	1
4. Other	\$894.7	1
5. Cotton and Linters	\$286.1	2

Source: U.S. Department of Agriculture

14. California Office of Trade and Investment. Vital Statistics. 2002.

15. California Employment Development Department. California Agricultural Bulletin. March, 2003. p.3.

16. Ibid. p.4.



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Residential Construction

New housing construction in 2003 continued to spur economic growth throughout most of California's regions, providing a critical source of job growth and stability for the state's economy. According to the Real Estate and Land Use Institute at California State University, Sacramento, every dollar spent on residential construction generates \$2.59 in economic output. In 2003, the construction industry provided nearly 800,000 high-paying jobs for California's working families, with hourly median wages of \$19.02.

As in the previous year, both the price of single-family homes and the sale of existing homes increased due to the high demand and the low mortgage rates. The median price of existing single-family homes rose from an annual average of \$331,000 in 2002 to a record high of \$404,520 in December 2003.^{17,18}

Between 1993 and 2003, the number of housing permits issued in California more than doubled (Table 3). Nearly 10 percent more homes were sold in 2003 than in 2002,¹⁹ indicating a steady demand for residential real estate despite the rise in home prices. Residential construction also rebounded in the San Francisco Bay Area, from a seven-percent drop in 2002 to a gain of almost 38 percent in 2003.²⁰

However, a family with two full-time workers earning the state median income (\$54,000 combined)²¹ would have to double their salaries to afford a median-priced home in California. As a result, California's rate of home ownership (53 percent) is far lower than the national average (67.4 percent).

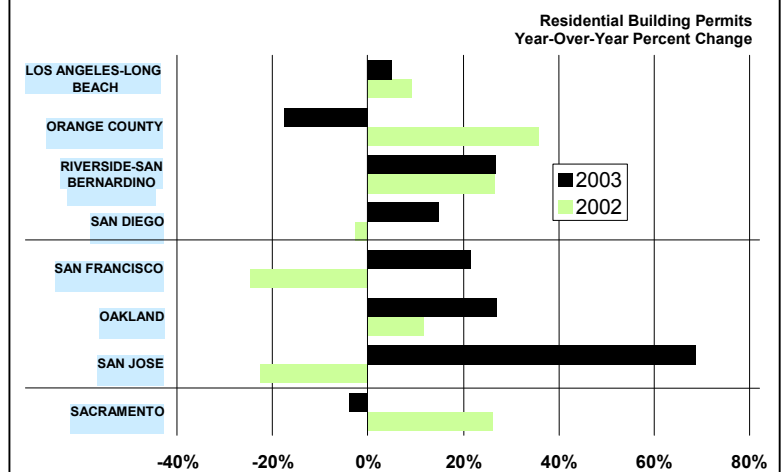
Table 3

California Housing Permits	
Year	Total
1993	84,656
1994	97,047
1995	85,293
1996	94,283
1997	111,716
1998	125,707
1999	140,137
2000	148,540
2001	148,757
2002	167,761
2003 p	195,000

p*= preliminary
Source: California Department of Finance

Table 4

Residential Construction



Source: California Department of Finance

17. Ibid.

18. California Association of Realtors. Repeat Homebuyers Dominate 2003 Market; Sellers Reap Record Gains. Robert Kleinhenz. January, 2004.

19. Ibid.

20. California Department of Finance. Finance Bulletin. December, 2003. p.1.

21. California Department of Finance. Demographic Research Unit. California Current Population Survey Report: March 2002 Data. June, 2003.



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Manufacturing

California's manufacturing industry sector is the production hub for nearly all other industries in the state. Goods produced by this industry contributed nearly \$220 billion to the national economy in 2001.²² Today, the manufacturing industry provides 1.6 million jobs for California's working families.²³

Jobs in the manufacturing industry are crucial to the stability of California's economy, as they provide on-the-job training, options for career advancement and average wages of more than \$15 per hour.²⁴ However, many manufacturing businesses are moving their production out of state to take advantage of lower costs of labor and living.

After a steady decline that began in 2000, the manufacturing industry experienced a modest two-percent increase in orders for all durable goods. Within this category, orders for high technology products increased by 13.7 percent from 2002 to 2003. However, this modest boost was unable to sustain current levels of employment, and nearly 60,000 people lost their manufacturing industry jobs in 2003.²⁵

The outlook for California's manufacturing sector is mixed. Significant expansion is projected for the specialized goods segment, but production is expected to decline for other industry segments, including general apparel and paper and tire manufacturing. By 2010, the production of specialized goods is expected to increase from 10 to 40 percent in the areas of electronics, search and navigation, chemical and allied products and pharmaceutical drugs.²⁶

Table 5

California's Manufacturing Industry

- In 2001, California's \$220 billion manufacturing industry ranked #1 in the nation for value added by manufacture.
- In 2002, California's \$14.89 average hourly earnings for production workers in manufacturing ranked #25 in the nation, far below the national average.
- Employment in the state's high technology manufacturing industries declined 12 percent in 2002 and two percent in 2001.

Source: California Employment Development Department, Labor Market Information Division

Table 6

California's Top Five Manufacture Exports in 2002

<u>Commodity</u>	<u>Value (\$millions)</u>
1. Computer and Electronic Products	\$39,672
2. Machinery, Except Electrical	\$9,518
3. Transportation Equipment	\$7,100
4. Chemicals	\$5,418
5. Miscellaneous	\$4,498

Source: California Technology, Trade and Commerce Agency

22. U.S. Department of Commerce, Bureau of the Census, Annual Survey of Manufacturers.

23. California Employment Development Department. Labor Market Information Division. California Seasonally Adjusted Employment and Labor Force by Month. November, 2003.

24. California Employment Development Department. Labor Market Information Division. LMI E-Newsletter. December 12, 2003.

25. California Employment Development Department. The State of the State's Labor Markets: A Labor Day Briefing for California. September, 2003. p.6.

26. California Employment Development Department. Labor Market Information Division. Employment Projections by Industry, 2000-2010. Table 2. August, 2002.



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Tourism

California's tourism industry includes travelers from other states and from abroad, as well as California residents who travel to destinations throughout the state. The tourism industry contributes \$75.8 billion to California's economy and provides more than one million jobs for Californians.²⁷ Of this amount, payroll accounts for \$25 billion and state and local tax receipts are \$4.7 billion.²⁸

California residents are the mainstay of the state's industry, accounting for nearly 90 percent of U.S. resident travel throughout the state.²⁹ In 2002, Californians made 276 million tourism-related trips.³⁰ With more shopping centers than any other state in the nation, shopping is reported to be one of the most popular activities for California's tourists. Los Angeles County received the largest portion of the state's domestic tourism, with 49 million trips.³¹ Air travel by U.S. residents to and within California significantly decreased from 2001 to 2002, reflecting a softer economy and widespread concern about air safety after September 11 and during wartime.

With its natural wonders, cultural attractions and temperate climate, California also attracts more international tourists than any other state in the nation. Although approximately eight million international travelers visited California in 2002,³² this figure still represents a decrease from the previous years.

Table 7

California's Top 10 Tourist Destinations in 2002

<u>Destination</u>	<u>Visitors (millions)</u>
1. Disneyland	12.7
2. Universal Studios	5.2
3. Disney's California Adventure	4.7
4. SeaWorld	4
5. Knott's Berry Farm	3.6
6. Six Flag's Magic Mountain	3.1
7. Santa Cruz Beach Boardwalk	3
8. Six Flags Marine World	1.9
9. Paramount's Great America	1.8
10. Monterey Bay Aquarium	1.7

Source: California Department of Tourism

Table 8

California's Top Five Overseas Visitors in 2002

<u>Origin</u>	<u>Visitors (000s)</u>
1. Japan	731
2. United Kingdom	603
3. South Korea	343
4. Germany	277
5. France	243

Source: California Department of
Tourism

27. California Tourism Department. California Fast Facts 2003: Statewide and Regional Tourism Facts and Figures. p.1.

28. Ibid.

29. Ibid.

30. Ibid.

31. Ibid.

32. Ibid.



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CED PRIORITIES

With the goal of meeting its statutory requirement to provide continuing support and guidance for the overall economic development of the state, in the 2002 CED report, the Commission set forth a list of six policy priorities to help build economic security for California's working families. These are outlined below, and reviewed in more detail on pages 12-19.

1. Providing Education and Training

California's institutions of higher education are the foundation for the development of the state's skilled workforce, scientific discoveries and technological innovation. The CED recognizes this, and the Chair of the CED has been at the forefront of ensuring equal access to higher education—based on merit—for all Californians. Meeting this objective will be essential to the advancement of the emerging technologies that we have fostered and to the vibrancy of our economy.

2. Building for Economic Growth

Infrastructure and security investments are critical for safeguarding our economy. Public works and public/private development partnerships, such as the one with Surtec, Inc. (described on page 14), enhance the state's infrastructure and serve as catalysts for business expansion.

3. Retaining Good Manufacturing Jobs

Highly skilled manufacturing jobs are essential to the state's economic growth and stability. The state should consider new incentives for manufacturing retention, and expand our infrastructure development bonds. In addition, as other states attempt to recruit California's aerospace companies, the CED has focused on retaining the state's aerospace industry and building upon related investments to support our state's infrastructure and intellectual capital base.

4. Expanding Trade

The CED has acknowledged our ports as pivotal to local and national trade activities. Additionally, increased foreign direct investment will help to open and expand international markets for California-produced goods and services. The state should work to support trade by making long-term investments in air and water port infrastructure and security.

5. Supporting Small Businesses

To encourage entrepreneurship and foster the success of small businesses, the state should seek new ways to expand access to capital and ensure that regulations adopted by the state do not unduly burden small businesses.

6. Promoting a Healthy Workforce

Costs to the state from the emergency coverage of the uninsured hinder the economy and cripple potential investment opportunities for economic development. A healthy workforce leads to a productive business climate, and the state should partner with the business community to create a health care system that benefits both employers and employees. The CED has been active in promoting a privatized form of employee health care.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Providing Education and Training

California's institutions of higher education are the foundation for the development of the state's skilled workforce, scientific discoveries and technological innovation. Ensuring equal access to higher education for all Californians is essential to the advancement of our economy.

Higher levels of education correspond with better employment prospects. The unemployment rate for those with a college degree is 3.5 percent. Conversely, the state unemployment rate is 6.8 percent for those with only a high school diploma.

There are inherent benefits of higher education both to the individual student and to the State of California. Since California's students will be entering a workplace environment in which they are vying for employment with students from around the world, it is imperative to equip them with the tools they need to compete in a global economy.

Signed into law in 2000, SB 1644 (Ortiz) provides students with the opportunity to collect full tuition to attend most California colleges upon meeting the financial and academic requirements. Because every student who satisfies the income eligibility

requirements is guaranteed a Cal Grant, the Chair of the CED has made it a priority to ensure that all eligible students are aware of the program and its extraordinary benefits. Through a combination of large-scale press events, statewide outreach campaigns, mass mailings and high school visits, the Lieutenant Governor has helped to steadily increase the annual number of applicants. When more Californians find a pathway to college, the entire state benefits.

To encourage an environment of open communication and cooperation among the major entities of the California education system, the Chair of the CED created and hosts an annual statewide Education Summit. The gathering unites people from each level of the system—sharing perspectives and ideas to work toward achieving a common goal. During the summit, participants and experts were asked to present proposals to close the widening achievement gap present in our system.

In 2003, stakeholders, seasoned education experts, legislators, education professionals, students and parents met to discuss how to adequately fund a quality education. Many ideas were proposed,

Table 9

Persons (25+) by Educational Attainment and Personal Income in 2001*

Educational Attainment	Total Number	Median Income
Not a High School Graduate	4,139,000	\$11,500
High School Graduate	5,026,000	\$18,400
Some College or AA	5,937,000	\$28,000
BA/BS	3,902,000	\$40,100
Master's or Higher	1,954,000	\$55,500
Total	20,958,000	\$23,700

*Numbers are rounded and total may not be exact.
Source: California Department of Finance

Table 10

Unemployed Persons by Educational Attainment and Unemployment Rates in 2002*

Educational Attainment	Unemployment Rate	Number Unemployed	Distribution of Unemployed
Not a High School Graduate	11.8%	267,000	32%
High School Graduate	6.8%	216,000	25.9%
Some College or AA	4.5%	189,000	22.8%
BA/BS or Higher	3.5%	161,000	19.3%
Total	5.8%	832,000	100%

*Numbers are rounded and percentages may not be exact.
Source: California State Department of Finance



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including an updated funding model, legislation, possible initiative campaigns and a widened tax base to generate the revenue needed to provide an adequate education for all California students.

California's future economic growth will depend on strong funding for our K-12 systems and increased access and affordability in our institutions of higher education. California spends \$9,398 per year on each public school student—nearly \$800 below the national average. We cannot expect California students to stay ahead of the curve and compete for employment in the global economy if their education is not being adequately funded. It is our duty and responsibility to provide students with the tools they need to achieve success. The Lieutenant Governor has also consistently spoken on behalf of students and their parents to staunchly oppose student fee increases at all levels of higher education.

This legislative session, the Lieutenant Governor sponsored legislation that would have given students and their parents a stronger voice during student fee negotiations in the University of California (UC) and California State University (CSU) systems. AB 550 (Diaz) would have provided an avenue for those who pay the fees to provide input to the governing bodies of the system prior to adjustments. It is imperative that educating every talented student is viewed not as a state expense, but as an investment and a priority in each annual budget. Adopting this perspective will pay huge dividends in future years—allowing California to maintain its position as a global economy.

In addition to training California's future workforce and advancing research and development, California's education system is itself a driving force for the state's economy. The University of California employs more than 118,000 full-time staff statewide, and pays over \$6.9 billion in annual salaries and wages.³³ Expenditures by the UC led to the creation of 255,000 jobs. When combined with the \$5.5 billion spent on the procurement of goods and services, the total direct contribution of the University of California to the state's economy is between \$14 and \$17 billion annually. However, the UC system's greatest value to the state's economy is through indirect contributions. A recent study found that the UC system contributes more than \$120 billion to the state, primarily through its research activities, workforce preparation and specialty education programs.³⁴

33. University of California. 2002-2003 Annual Financial Report. Driving California's Economy. www.universityofcalifornia.edu/annualreport/2003/1_driving.html.

34. ICF Consulting. California's Future: It Starts Here. UC's Contributions to Economic Growth, Health, and Culture. An Impact Study for the University of California. March, 2003.



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Building for Economic Growth

Investing in infrastructure is essential to supporting business development and expansion. Low-interest, tax-exempt Industrial Revenue Bonds can be used more effectively to create long-term infrastructure investments and thus support business expansion. In 2003, the Lieutenant Governor approved the issuance of one such bond by the California Infrastructure and Economic Development Bank.

Surtec Bond

The Chair signed the third in a series of tax-exempt bonds to promote economic development and jobs. In total, these bonds amounted to \$139 million and led to the creation of approximately 700 new jobs.

The most recent bond was issued in the amount of \$4 million to Surtec, Inc. by the California Infrastructure and Economic Development Bank. Founded in 1977, Surtec, Inc. is located in the City of Tracy, and specializes in developing and distributing cleaning products and equipment used primarily in building maintenance applications. Their major clients include Longs Drugs, Save-Mart, Food Max and United Airlines.

The project to be funded by this bond will create 170 new jobs that pay an average hourly wage of \$21 and provide full medical and dental benefits, as well as optional retirement plans.

- The company expects new jobs to have a weighted average hourly wage of \$21.38.
- The total positive economic impact for the City of Tracy will be \$26 million, including construction and payroll.
- Employees will receive medical and dental benefits and will have the option to participate in a three-to-one employer matched 401(k) plan.

Table 11



Surtec's new 87,000 sq. ft. state-of-the-art facility where they develop, manufacture and distribute the latest technology in maintenance chemicals and equipment.

Table 12



Surtec's manufacturing facility was designed and constructed according to the highest engineering standards and strictest environmental regulations. Surtec recycles 100 percent of the waste generated through their manufacturing processes.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Retaining Good Manufacturing Jobs

California's manufacturing industry supports the production of the state's other industries and is a crucial source of employment for our working families. As will be discussed later in this report, many of California's manufacturing businesses struggle to compete with businesses that produce goods in countries with lower labor costs and more lenient regulatory standards.

Throughout 2003, the Lieutenant Governor and the executive director of the CED met with experts and business and policy leaders in the manufacturing field to discuss potential policy options for supporting our state's manufacturers. These meetings included:

- Meeting with David Braunstein, President and CEO of the California Manufacturing Technology Center (CMTC), a not-for-profit organization that helps Southern California's small and medium-sized manufacturers to improve their competitive standing. The CMTC offers assistance to manufacturers who need help in reducing costs, boosting sales, retaining employees and remaining in business.
- Joining the California State Gold Team, a task force comprised of state policy and business leaders in aerospace, manufacturing, military and security, and meeting frequently with its members to discuss the state's security needs, industry outlooks and policy proposals.
- Meeting on a confidential basis with the owners of several manufacturing businesses in Southern California who were considering relocating out of state. Because of these efforts, the state was able to successfully retain and facilitate the expansion of a company that is the global leader in the design and manufacture of equipment for flat bread products.

The CED established a task force made up of local economic development organizations, utility companies, the chamber of commerce and the city planning commission to work with this company and identify retention solutions. The company, which was on the verge of relocating to Arizona, has recently acquired land so that it may expand its operations in the Los Angeles area.

As a result of these strategic meetings with stakeholders in the manufacturing industry, the CED has identified the need for the retention of manufacturing jobs within the state, particularly for industry sectors which show strong growth potential and have made significant investments in California's intellectual capital base and industrial infrastructure. The aerospace industry is one such industry sector, with its key links to the critical defense industry, focus on space-related research and decades of development and investment in California's infrastructure.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Aerospace

California has the largest aerospace industry in the nation. It provides \$20 billion to our economy in manufacturing output and approximately 100,000 jobs for our working families. However, the total economic impact of California space enterprise is far greater, producing more than \$101 billion for our state's economy.³⁵

Throughout 2003, the Chair of the CED supported efforts to retain the state's aerospace industry and safeguard thousands of jobs in our state. In June 2003, the California Space Authority elected the Lieutenant Governor to serve as Vice-Chair of the Aerospace States Association (ASA). The ASA is the nation's premier aerospace advocacy organization representing states. The ASA focuses on national aviation and space policy development, economic advancement, scientific enrichment and academic excellence.

In June 2003, the CED met with the ASA in Washington D.C., and held discussions with senior federal aerospace policymakers from NASA, the Federal Communications Commission (FCC) and the White House Office on Science and Technology Policy. In addition, strategic meetings were held with the owners of California-based aerospace businesses to discuss the challenges and opportunities facing the aerospace industry in California.

During the summer of 2003, the CED met with representatives from the San Jose offices of Rockwell Collins and Lockheed Martin to promote the development of the F/A-22 fighter jet, and the 400 jobs that it would create. The F/A-22 is the world's most sophisticated military aircraft, designed and built largely by California's aerospace industry. It is a stealth fighter/bomber with the speed and technological superiority to penetrate electronic air defense systems. Soon after this meeting, the Lieutenant Governor urged congressional leaders to accelerate funding of the F/A-22 so that it would be ready to be used by the Air Force in early 2004 (Table 14).

Table 13

California's 10 Key Space Assets (not in order of importance)

1. Satellite Manufacturing
2. Vandenberg Air Force Base
3. Edwards Air Force Base
4. Los Angeles Air Force Base
5. Air Force Plant 42
6. California NASA Centers
7. World-Class Universities
8. Aerospace Companies and Suppliers
9. Space and Naval Warfare Systems Command
10. Research, Development, Test and Evaluation Capabilities

Source: California Space Authority

Table 14

"The F/A-22 project will create good jobs for California's working families. California has over 200 companies working on the F/A-22 and the full program will provide more than \$7.7 billion for the California economy, supporting thousands of well-paying manufacturing jobs."

—Lieutenant Governor Cruz M. Bustamante

35. California Space Authority. Spacebound!: News and Information for California Space Authority Members and Stakeholders. Summer 2003. Volume 13. p.8.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Expanding Trade

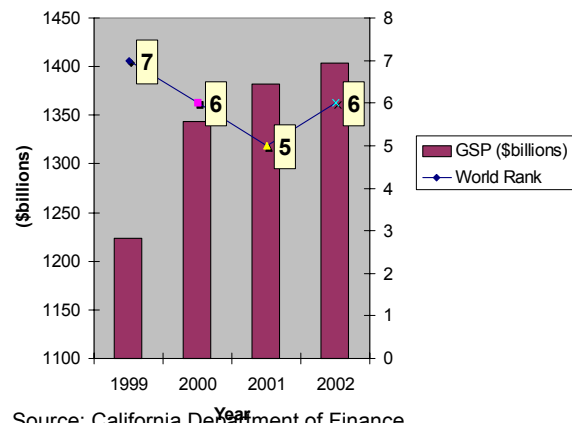
According to 2002 data, California is the second-largest exporter in the nation³⁶ and home to the sixth-largest economy in the world.³⁷ Our state's trade industry sector contributed nearly \$220 billion to the state's economy in 2001³⁸ and provided nearly 3.5 million jobs for California's working families.³⁹

From 2001 to 2002, California's economy fell from the rank of fifth-largest in the world to the sixth-largest. This reflected our national recession, as well as a decreased demand for goods and services, and softer economies throughout the world. Exports to California's top 10 international markets dropped in 2002, (the latest data available) with the steepest drops to Germany (-25.3 percent), the United Kingdom (-22.2 percent) and Japan (-24 percent).⁴⁰ Though the total value of California's top exports dropped 13.6 percent in 2002, this is far less than the nation's decline in trade for the same year.

To ensure the state's future growth, we must aggressively invest in the state's infrastructure and work to expand trade partnerships. Air and water ports are essential to maintain trade route advantages and create more efficient travel facilities to and from California's ports. In addition, new container review protocols are essential for security reasons.

Table 15

California's Gross State Product and World Rank



Source: California Department of Finance

Table 16

California's Top 10 Export Markets (\$billions)*

Country	2000	2001	2002	% Change 2001-02
Mexico	\$17.5	\$16.3	\$16.1	-1.6
Japan	16.4	14.6	11.1	-24.0
Canada	14.1	11.8	10.1	-14.7
China (Taiwan)	7.4	5.6	5.4	-4.8
Korea	6.9	5.0	4.7	-6.4
China (Mainland)	3.5	4.6	4.5	-4.1
United Kingdom	5.9	5.6	4.3	-22.2
Hong Kong	4.1	3.9	3.7	-6.3
Netherlands	4.9	4.3	3.6	-17.0
Germany	5.3	4.6	3.5	-25.3
Total CA Exports**	\$119.6	\$106.8	\$92.2	-13.6

*Numbers are rounded and percentages may not be exact

**Total of exports to all countries

Source: California Technology, Trade and Commerce Agency

36. California Technology, Trade and Commerce Agency. Global Economic Development Division. California's International Trade 2002.

37. California Department of Finance. Economic Research Unit.

38. Bureau of Economic Analysis. Regional Data. Table J.4:Gross State Product (GSP) by Industry and Regions, 2001. December, 2003.

39. California Employment Development Department. Labor Market Information Division. Employment Projections by Industry, 2000-2010. Table 2. August, 2002.

40. California Technology, Trade and Commerce Agency. Global Economic Development Division. California's International Trade 2002. p.5.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Supporting Small Businesses

According to the most recent data available, the number of small businesses increased 3.7 percent in 2002, for a total of 1,022,192 small businesses in the state. This increase reflects the rise in the number of small businesses that began in the mid-1990s. The number of self-employed business owners and the volume of small business income also followed this trend and increased in 2002 (Table 17).

Despite the positive trend for small business growth, many business owners claim that the state should work to improve the overall business climate by reducing the cost of doing business in California. Their most prevalent concerns revolve around the rising cost of workers compensation, the phasing-out of the Manufacturing Investment Credit, and whether federally allocated transportation dollars can be recaptured.

The consolidation of banks has led to fewer, but larger, sources of business financing overall. Banks typically have high minimum amounts for business loans. These high minimums, often in excess of \$1 million, typically require borrowers to invest personal capital and demonstrate an established personal credit history.

Many aspiring entrepreneurs and small business owners, especially those locating a business in low-income areas that have been historically underserved by banks,⁴¹ do not meet the personal capital reserve or credit requirements to secure capital from traditional lenders. Throughout 2003, the CED has partnered with several community and economic development organizations, banks and credit unions to extend banking services within low-income areas and expand the range of loan products available in these neighborhoods. These successful partnerships have led to the development of three new consumer and commercial banking centers by Operation Hope, a nonprofit organization focusing on inner city investment and banking needs, and Union Bank of California. Together, these new banking centers serve more than 100,000 residents and hundreds of business owners in the communities of South Central Los Angeles, East Los Angeles and South East Los Angeles.

Table 17

In 2002, California's Small Businesses...

- Accounted for 99.1 percent of all businesses (fewer than 500 employees)
- Numbered 1,022,192
- Were 40.3 percent owned by women
- Had 1.9 percent fewer bankruptcies than in 2001
- Had 4.7 percent more business terminations than in 2001
- Had 4.9 percent more income, for a total of \$120.1 billion than in 2001

Source: Small Business Administration

Table 18

Consolidation of Banks

Number of Banks 1998-2002

1998	1999	2000	2001	2002
336	334	315	300	288

Number of Banks by Asset Size in 2002

<\$100 M	\$100-500 M	\$500M-\$1B	\$1B-\$10B	Over \$10B
90	125	32	36	5

Source: Small Business Administration

41. San Francisco Federal Reserve Bank.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Promoting A Healthy Workforce

According to the California Budget Project, the working uninsured most commonly belong to families living at or near the poverty level and, ironically, the non-working poor more often have health care insurance because they are more likely to qualify for Medi-Cal.

Many employees work 40 hours per week and cannot afford to purchase an individual medical insurance plan (which may cost between \$150 to \$500 per month).⁴² Instead of providing health care insurance for their employees, a small but growing number of companies have encouraged their employees to apply for state-funded health care insurance programs, which are intended to serve the indigent population. As a result, Medi-Cal has become an indirect subsidy to several large corporations.⁴³ California's taxpayers and business owners who already provide medical insurance (and must compete with those who do not) have successfully moved state legislation to eliminate this practice, and beginning January 1, 2006, businesses with more than 200 employees will be required to provide health coverage for their workers.

A major step to provide the uninsured with a privatized form of health care was the passage last year of SB 2 (Burton), the landmark Health Insurance Act of 2003. This measure was co-sponsored by the CED and was signed by the Governor on October 5, 2003. As a result of this recently enacted measure, businesses are expected to provide health insurance for their employees directly, or pay a fee to the state for the provision of insurance to an estimated one million of California's uninsured.

Businesses that employ between 20 to 49 employees would not be required to provide health insurance unless a tax credit in the amount of 20 percent of the net employer cost is enacted. Employers with fewer than 20 employees would be exempt.

According to the California Medical Association, SB 2 will cover more than one million uninsured workers, their dependents and also help relieve this burden to the state while building on California's current system of employment-based coverage.

Table 19

Who Does SB 2 Cover?

- As of January 1, 2006, businesses with 200 or more employees will provide coverage for employees and their dependents.
- As of January 1, 2007, businesses with 50 to 199 employees will provide coverage for direct employees.
- Only if a state tax credit is available, businesses with 20 to 49 employees will provide coverage for their employees.
- To be eligible for coverage by an employer, an employee must work at least 100 hours per month and have been employed by the employer for at least 3 months.

Table 20

Impact of SB 2

- Over 18 million people have employer-based health coverage. SB 2 extends coverage to another million.
- California currently has 6.7 million uninsured residents.
- Under SB 2, the average employer will face only a 0.2 percent cost increase (U.C. Berkeley).
- 87.5 percent of employers have fewer than 20 employees and thus are exempted from SB 2. Ninety-five percent of employers have fewer than 50 employees.

42. <http://prospectivemembers.kaiserpermanente.org/kpweb/healthplans/individualplans.do>.

43. The California Medical Association estimates that over six percent of the current premium costs for health insurance are the result of cost-shifting the expenses of the uninsured onto those with coverage.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

2004 CALIFORNIA ECONOMIC OUTLOOK

California's economy is a reflection of the dynamic commercial, environmental, political and social climate throughout our state. Through international trade and commerce, our industries are inextricably linked to buyers, competitors and suppliers throughout the world. As we begin 2004, our nation is preparing for a presidential election while still at war in the Middle East. The outcomes of both are unknown, creating a level of uncertainty that could discourage foreign direct investment in our business community.

Housing

According to the California Legislative Analyst's Office, the 2003 levels of housing construction are expected to continue through 2004.⁴⁴ Years of short supply in new home construction and a growing population will continue to support rising home prices and the demand for the construction of new homes. Though California is home to many rural, suburban, desert, mountain and even ocean-front communities with relatively affordable home prices, the California Association of Realtors (CAR) projects that home prices will rise 13 percent throughout the state. The Association states that the median home price will increase from an estimated \$369,500 in 2003 to \$417,500 in 2004.⁴⁵

The median price of single-family homes continues to increase due to inflated prices caused by the imbalance between supply and demand and low mortgage rates. This trend appears to be a national phenomenon that is making home ownership a lot more difficult for working families. The CAR estimates that by next year, fewer than one in five working families will be able to afford a median-priced home.⁴⁶

To offset concerns of a housing "bubble," the state should continue to work to increase the supply of affordable and entry-level housing, consider revitalizing urban areas and promote smart, high-density housing.⁴⁷ An example of such efforts includes SB 800 (Burton and Wesson) passed by the Legislature in 2003 to establish detailed and specific liability standards for newly constructed housing and create a pre-trial process for addressing construction defects and their repairs. This type of effort should enable cities, counties and developers to expedite the construction of new homes, and especially common wall housing, such as condominiums. These efforts will promote housing opportunities for working families throughout California.

44. California Legislative Analyst's Office. California's Fiscal Outlook. LAO Projections 2003-04 Through 2008-09. November 14, 2003. p.17.

45. California Association of Realtors. Market Trends. 2004 Housing Market Outlook. December, 2003.

46. California Association of Realtors. California's Housing Market Forecast for 2004: Record-Setting Run-Up in Median Home Price to Continue, Sales to Moderate from Record Levels This Year. October 2, 2003.

47. California Building Industry Association. There Has Never Been a Better Time for Housing. www.cbia.org. December, 2003.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Education and Training

The global economy is becoming increasingly mobile, with jobs and economic activity clustering around the state's highly knowledgeable and skilled workforce. The competitive advantage of California's workforce and industries is their access to world-class research institutions and educational programs. California's college system provides an advanced level of general education and skills-based teaching to equip students for their entry into the global workforce. The state will be judged in the future on its commitment to ensuring that its schools and workforce training programs provide the skills and training demanded by emerging industries.

From 2002 through 2011, the UC's expenditures are expected to generate \$144 billion in gross state product, \$56 billion in state and local tax revenues, and lead to the creation of more than 2.3 million jobs statewide.⁴⁸ Just as education can forge an economy's competitive edge, it also expands access to economic opportunity. California's college system has sought to expand access to historically disadvantaged and underrepresented demographic groups through extensive outreach, financial assistance and retention programs. As a result of its relatively low tuition rates and extensive outreach efforts, California's college system has the opportunity to equip thousands of talented students from traditionally under-served communities to enter the workforce and increase their opportunities for economic advancement.

Job Growth and Workforce Investment

In today's global economy, California's workforce competes with workers throughout the world. Many business owners in California, and throughout the nation, are concerned about the cost of doing business domestically and are reacting by transferring their production offshore to countries with significantly lower labor costs. This recent offshore transfer of jobs extends beyond low-wage production and assembly jobs that have been shifting to Malaysia, Mexico, Central America, Korea and China over the past 20 years. Today, white-collar and skilled jobs are also being moved offshore. In fact, thousands of highly skilled and well-paying jobs in California's information technology industry are being transferred abroad, weakening the exports of computer-related goods from our state and nation.

When quality jobs from key sectors of California's economy are transferred offshore, revenue losses ripple through to adjacent businesses, local governments and the state. As revenues from personal and business taxes decline, the state's budget deficit will increase and critical funding for schools, hospitals and public safety may be threatened.

To prevent the transfer of California's jobs and businesses abroad, the state must invest in preparing its workforce and industries to compete in the future areas of global economic growth. With the most diversified economy and skilled workforce in the world, we cannot—and should not—try to compete with the poverty-level wages and dire quality of life that exists in many developing countries.

48. ICF Consulting. California's Future: It Starts Here. UC's Contributions to Economic Growth, Health, and Culture. An Impact Study for the University of California. March 2003. p.16.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

A Technological Development Leader

The University of California plays a critical role in our state's leading position as a cauldron of innovation and developer of new technologies. According to a recent independent study, an estimated seven percent of all research and development (R&D) activities in California take place at UC campuses. Economic forecasts indicate that through the UC's research and development activities, our state will realize productivity gains of \$5.2 billion over the period between 2002 and 2011.

Because of the UC's track record of successful innovation, many private firms seek out its research expertise through private contract partnerships. For 2000-2001, the UC entered into more than 2,600 industry agreements, with a combined value of more than \$216 million. In addition, private sector funds have increased as a share of total research expenditures across nearly all UC campuses.

Additionally, the University of California campuses have collectively generated over 2,600 invention disclosures. In the year 2002 alone, the U.S. Patent and Trademark Office issued 431 patents for projects generated by the UC system campuses. These dynamic joint ventures can lead to commercial innovations that fuel the success of our economy.

The catalyst for success in new and emerging businesses is a solid research and technological foundation. Many of the leading-edge technologies that are cultivated at the UC often lead to the creation of new companies. More than 160 companies have been founded because of technology licensing agreements with the University of California.

Partnerships between the UC and private enterprises have produced many rewarding projects. The California Institutes of Science and Innovation are a great example of one of these ventures. Supported by matching state funds, the institutes lead UC-industry research in biomedicine, nanotechnology, telecommunications and information technology. These institutes were created with

Table 21 UC Research Contracts by Industry (partial list)

Industry Sector	Contract	\$millions
Semiconductors	Design and Test of Gigascale Integrated Systems	6.73
Semiconductors	Lithography for Terascale Electronics	\$4.9
Semiconductors	Microfabricated High Performance Immunoanalyzers	\$.829
Semiconductors	Defect-Tolerant Moletronics Consortium	\$1.65
Information Technology	Infrastructure Support for Network-Based Content Delivery	\$.654
Biosciences	Study of Pulmonary Problems in Costa Rican Farmworkers	\$.799
Biosciences	Cardiovascular Benefits of Certain Cocoa Polyphenols	\$.654
Biosciences	Glaucoma Clinical Trials	\$.358
Biosciences	Diabetes Research	\$.416
Biosciences	ADHD Study	\$.323
Biosciences	Leukemia Study	\$1.277
Biosciences	Study of Vascular Formation	\$.242
Biosciences	Bladder Origin Pelvic Pain	\$.834
Biosciences	Clinical Strategy of HIV-1 Phenotypic Resistance	\$.716
Agriculture	Virtual Seed Institute	\$1.865

Source: ICF Consulting. "California's Future: It Starts Here. UC's Contributions to Economic Growth, Health, and Culture." An Impact Study for the University of California. March, 2003.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

an explicit state mandate to enhance California's competitiveness by transferring basic research to the private sector at an accelerated rate.

To continue the productivity of the UC and the resulting economic benefits, California must prioritize funding for its colleges and universities. We must not take for granted the extended economic benefits and value of our research institutions. Even in difficult economic times, the Legislature and Governor must place great emphasis on ensuring future generations' access to a world-class public education system.

Table 22

Inventions and Research

UC Campus	Total Research Expenditures	Total Inventions
Berkeley	\$941,665,000	300
Davis	\$762,458,000	235
Irvine	\$356,063,000	203
Los Angeles	\$1,181,514,000	427
Riverside	\$190,070,000	102
San Diego	\$1,145,165,000	657
San Francisco	\$1,013,215,000	460
Santa Barbara	\$268,764,000	215
Santa Cruz	\$130,255,000	57
Total	\$5,989,169,000	2,656

*Figures are based on disclosures and research efficiency, 1998-99 through 2000-01.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Biotechnology

The biotechnology industry is a promising source of global economic growth, producing goods and services to improve the delivery of health care. In 2002, approximately 35 percent of U.S. biotechnology companies were based in California—the highest concentration of biotechnology companies in the nation. As California’s \$20-billion biotech industry continues to grow, so will its demand for a skilled workforce and access to research and development.⁴⁹

Throughout California, clusters of biotechnology businesses surround regional metropolitan areas that have universities and a skilled workforce. California’s biotechnology businesses thrive on the highly trained graduates and cutting-edge research produced by our local world-class universities. California’s biotechnology clusters account for 56 percent of the nation’s biotechnology research and development activity.⁵⁰

Table 23

California’s Biotechnology Industry...

- Is centered in San Diego, the Bay Area, Los Angeles and Orange County
- Has the highest concentration of medical biotechnology firms in the nation
- Continued to expand during the recent economic downturn
- Is projected to grow 30 percent from 2000 to 2010 and add approximately 219,000 new jobs

Source: California Employment Development Department

Table 24

Projected Job Growth for the Top Five Areas in Biotechnology, 2000-2010 (000s)

<u>Area</u>	<u>2000</u>	<u>2010</u>
1. Management/Public Relations	149	210
2. Engineering Services	123	164
3. Equipment Wholesalers	122	152
4. Research and Testing Services	113	160
5. Drugs	39	68

Source: California Employment Development Department

According to the Employment Development Department, the biotechnology industry is projected to grow by more than 30 percent from 2000 to 2010.⁵¹ This level of growth would create approximately 219,000 new jobs for California’s working families.

Jobs in the biotechnology industry tend to be skill-intensive and range from entry-level technicians and administrative assistants to sales executives and experts in science and engineering. Throughout this range of positions, most jobs in the biotechnology industry offer intensive on-the-job training, high salaries, medical insurance and retirement benefits. To increase the availability of these high-quality jobs for our working families, the state should continue to support emerging technologies by expanding partnerships between the public and private sectors that build upon the research and development capabilities of our UC system.

49. California Technology, Trade and Commerce Agency.

50. Federal Reserve Bank of San Francisco. Western Economic Developments. December 2003.

51. California Employment Development Department. The State of the State’s Labor Markets: A Labor Day Briefing for California. September, 2003. p.8.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

APPENDIX

2003 Commission Meeting

Following the appointment of the 13 commissioners, Lieutenant Governor Bustamante scheduled the first Commission meeting to be held in more than 10 years. The meeting took place on December 15, 2003, subsequent to the historic recall of California's Governor and amid major economic and state budget concerns. Economic information was conflicting with the continuance of a three-year downturn in California's economy and a \$12-15 billion deficit, yet the volume of business start-ups was higher than during the "dot.com" boom years. The new Governor decreased the Vehicle License Fee as his first act, adding \$3.2 billion to the current fiscal year's deficit and recommended an increase in borrowing, from \$10.7 to \$15 billion, through a bond initiative to be placed before the voters on March 2, 2004. Hopes were buoyed by projections of increased revenues for the last quarter of 2003 and bipartisan legislative efforts mounted.

The CED meeting was held in downtown Los Angeles and featured presentations by two of California's top economic and budget policy experts. In this setting, the CED began its work.

The first presenter, Dr. Jack Kyser, is the Chief Economist for the Los Angeles Economic Development Corporation (LAEDC). The LAEDC is a private, not-for-profit membership organization that provides leadership in the retention and creation of jobs and the advancement of the economic base in the Los Angeles area. Highlights from Dr. Kyser's presentation are featured in Table 26.

The second presenter, Ms. Jean Ross, is the Founder and Executive Director of the California Budget Project. The Project serves as a resource to the media, policymakers and state and local constituency groups by providing broad information and analysis of a range of state policy issues. Highlights from Ms. Ross's presentation are featured in the table at right.

Table 25

Highlights From Dr. Kyser's Presentation:

- In 2003, employment varied by region, with job losses highest in the San Francisco Bay Area and Los Angeles County. The Inland Empire and San Diego County gained the most jobs.
- Department of Defense prime contract awards rose more than 10 percent statewide from 2001 to 2002.
- State tax revenue significantly declined from August 2001 through November 2002, with personal income tax revenue dropping as much as 45 percent.
- Many California businesses are struggling due to significant increases in workers compensation insurance, which has raised the cost of doing business in California.

Table 26

Highlights From Ms. Ross's Presentation:

- California's economic performance today is much stronger than after the recession of the early 1990s.
- California's wage growth is nearly twice that of the U.S.
- Though the unemployment rate declined to 6.4 percent by November 2003, the average duration of unemployment increased.
- The number of business establishments increased more than 10 percent from 2001 to 2003.
- When compared with other states in the nation, California's business vitality, innovation and financial resources rank in the 10th percentile.
- However, California ranks in the 50th percentile in several categories, including: median wages, overall job quality, amenity resources, quality of life and natural capital.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Commissioners' Biographies

California State Senate Appointees

The Members of the Legislature appointed to the Commission shall serve at the pleasure of the appointing power and shall participate in the activities of the Commission to the extent that such participation is not incompatible with their respective positions as Members of the Legislature. For the purposes of this article, such Members of the Legislature shall constitute a joint investigating committee on the subject of this article and as such shall have the powers and duties imposed upon such committees by the Joint Rules of the Senate and the Assembly.

Senator Michael Machado, Senate District 5

Serves at the pleasure of the Senate Rules Committee



Senator Michael Machado was elected to serve the 5th Senate District in 2000, which includes portions of Sacramento, San Joaquin, Solano, and Yolo Counties. In addition to his legislative duties, Senator Machado owns and operates a family farm in Linden.

Prior to his election to the Senate, Senator Machado represented the 17th Assembly District for six years. In the years before his career in the State Legislature, he served on the board of a major California food processor and worked for the Agency for International Development in Eastern Europe and Russia, assisting farmers with the transition from a closed- to an open-market economy.

The Senator currently chairs the Senate Committee on Agriculture and Water Resources and the Senate Select Committees on Delta Resources and Development and on Air Quality in the Central Valley. He also serves on the Senate Committees on Appropriations, Business and Professions; Governmental Organization; and Local Government. He is a member of the Delta Protection Commission, the Economic Development Commission, and the California Debt and Investment Advisory Commission.

Senator Machado graduated with a degree in economics from Stanford University and earned his Master of Arts degree in agricultural economics from the University of California, Davis. In 1988, he attended the Harvard Agribusiness School in London, England.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Commissioners' Biographies

California State Senate Appointees (continued)

Senator Bill Morrow, Senate District 38

Serves at the pleasure of the Senate Rules Committee



Senator Bill Morrow represents the 38th Senate District, which includes a portion of south Orange County and much of north San Diego County. Prior to his election to the Senate, Senator Morrow was a small business attorney in the private sector, and prior to that, he served with distinction as a commissioned officer and military judge for the United States Marine Corps.

Senator Morrow is the Chair of the Senate Veterans Affairs Committee and the Vice-Chair of the Senate's Energy, Utilities and Communications Committee and the Judiciary Committee. He is a member of the Senate Committees on Governmental Organization, Insurance, and Transportation and serves on the Joint Legislative Audit Committee. In addition to his role on the Senate Select Committee to Investigate Price Manipulation of the Wholesale Energy Market, Senator Morrow also serves on three other Senate Select Committees: Mobile and Manufactured Homes; Urban Economic Development; and College and University Admissions and Outreach.

Senator Morrow graduated from UCLA with honors and received his Juris Doctorate degree from the Pepperdine University School of Law.

Senator Nell Soto, Senate District 32

Serves at the pleasure of the Senate Rules Committee



Senator Nell Soto was elected to serve the 32nd Senate District, which overlaps several communities in San Bernardino and Los Angeles Counties. She is the first woman to represent the Inland Empire in the Senate.

Prior to serving in the Senate, Senator Soto represented the 61st District in the State Assembly, and prior to that, she served on the Pomona City Council for 12 years. She also served on the board of the South Coast Air Quality Management District.

Senator Soto is the Chair of the Senate Committee on Public Employment and Retirement, the Senate Select Committee on Defense Conversion, and the Select Committees on Parental Involvement and Urban Economic Development. She also serves on the Senate Transportation, Insurance, Governmental Organization and Veterans Affairs Committees, as well as the Select Committee for the Alameda Corridor East.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Commissioners' Biographies

Gubernatorial Appointees

According to Government Code Section 14999-14999.10, 10 members are appointed by the Governor after consultation with business, industry and labor organizations, with no more than six members registered from the same political party. These 10 members shall include persons from the economic development fields of manufacturing, tourism, world trade and other such fields, as may be appropriate. The terms of these members shall be four years.

Mr. Pete Garcia

Term expires: 1/1/2006

Mr. Pete Garcia is the President and CEO of the University Mechanical and Engineering Contractors (UMEC), a company that designs, builds and commissions mechanical systems for commercial, institutional, high-tech, industrial and military clients.



UMEC specializes in the installation of sophisticated process piping and high-purity piping for the semiconductor and pharmaceutical industries, as well as medical gas systems for the health care industry. This company is also a leader in the installation of piping systems for water and wastewater treatment facilities and the design/construction of cogeneration facilities.

From 1989 to 1996, Mr. Garcia was a builder and developer for the University Redmond Corporation. He is a board member of the AVID Center, the San Diego Regional Economic Development Corporation and the Desert Pacific Boy Scouts.

Mr. Garcia earned a Bachelor of Arts degree at the University of Florida.

Mr. Philip S. Han

Term expires: 1/1/2005

Mr. Philip Han is the Director of Finance for Saban Capital Group, the private investment management firm of Mr. Haim Saban. Mr. Han has primary responsibility for developing and overseeing investment policy decisions with respect to portfolio investments for Mr. Saban and also actively participates in the firm's private equity investment activities.



Prior to his employment with the Saban Capital Group, Mr. Han was Vice President of Finance and Business Development for a start-up Internet and software development firm, and prior to that, he was the senior manager of tax consulting with PricewaterhouseCoopers in the firm's Entertainment, Media and Telecom group.

Mr. Han received his Bachelor of Arts degree in economics/business from UCLA and also his Master of Business Administration in finance from the Anderson School at UCLA.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Commissioners' Biographies

Gubernatorial Appointees (continued)

Mr. Larry J. Kosmont

Term expires: 1/1/2005



Mr. Larry J. Kosmont is the President and CEO of Kosmont Companies, an umbrella conglomerate consisting of four separate companies specializing in the formation of joint public/private developments and enterprises. He is also an owner and board member of Growers Transplanting, Inc., one of the largest agricultural greenhouse growers in California.

Mr. Kosmont was formerly the Director of Community Development for the City of Burbank and the City Manager for the City of Bell Gardens. He also served as President of the Southeast Los Angeles City Manager's Association and Vice President of the Assistant City Manager's Association of Southern California. In addition, Mr. Kosmont served on the board of the Los Angeles Metropolitan Water District for four years and as a State Commissioner on the Los Angeles Regional Water Quality Control Board.

Mr. Kosmont earned a Bachelor of Arts degree from the University of New York and a Master of Arts degree in public administration from the University of Southern California.

Mr. Gilbert A. Partida

Term expires 1/1/2005



Mr. Gilbert A. Partida has been the owner of Frontera Investment, Inc., a start-up company focusing on business opportunities in low-income, ethnically diverse markets since April 2003. From 1998 to 2003, he served as President and CEO of PriceSmart, Inc., a membership merchandise and services provider to the rapidly emerging consumer class in Latin America, the Caribbean and Asia, which now operates 31 warehouse clubs in 12 countries and two U.S. territories.

From 1993 to 1997, Mr. Partida was the President and CEO of the Greater San Diego Chamber of Commerce. He was also the Senior Associate and Chairman of the United States/Mexico practice group, Gray, Cary, Ames & Frye, and is a member of the American Bar Association. He was the Vice President and a board member of Partida Brokerage, Inc. and a board member of the Children's Initiative, HDI Educational Services, the Independent Colleges of Southern California, Inc., the Pacific Council on International Policy, *Promote San Diego '96* and the Rotary Club of San Diego.

Mr. Partida earned a Bachelor of Arts degree from the University of Arizona and a Juris Doctorate degree from Pepperdine University School of Law. Mr. Partida has also authored several publications.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Commissioners' Biographies

Gubernatorial Appointees (continued)

Ms. Lisa M. Pitney

Term expires 1/1/2007



Ms. Lisa M. Pitney has been the Director of California Government Relations at the Walt Disney Company since 2000. From 1996 to 2000, she was the Director of Civic Relations at the Disneyland Resort and was the Director of Governmental Affairs for FHP, Inc. from 1991 to 1996. She has been a member of the Economic Alliance of the San Fernando Valley since 2002 and a member of the Motion Picture Association California Group, Valley Industry and Commerce Association and the Central City Association of Los Angeles since 2000.

Ms. Pitney earned a Bachelor of Arts degree from Claremont McKenna College and a Master of Arts degree in public policy from Harvard University.

Mr. Lahori Ram

Term expires 1/1/2006



Mr. Lahori Ram has been the owner and General Manager of the Easton Avenue Apartments since 1984, the Country Club Apartments since 1994, and the Juana Avenue Complex since 1997. From 1975 to 1994, he was employed by the United States Postal Service and was an acting supervisor from 1990 to 1994. Mr. Ram founded Sri Guru Ravidass Sabha in 1979 and served as Chair of the corporation.

Mr. Ram has been President of the Indian National Congress of America since it was established in 1994 and a member of the Northern California Federation of Indian Associations since 1995.

In 1999, Mr. Ram was appointed by the California Senate Rules Committee to the Small Business Board and served until 2002, when he was appointed to the State Transportation Advisory Committee.

Mr. Ram earned a Bachelor of Arts degree from Punjab University in India.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Commissioners' Biographies

Gubernatorial Appointees (continued)

Ms. Shari F. Schenk

Term expires: 1/1/2007

Ms. Shari Schenk has been the Director of Marketing for Casey, Gerry, Reed & Schenk, LLP since 1999. From 1994 to 2003, she was President of the Agency for Jewish Education.



Ms. Schenk has served as a board member of the Women's Division of the United Jewish Federation since 1994 and currently serves as a board member of the Lawrence Family Jewish Community Center, as founding Co-Chair and member of the Marketing Committee of the San Diego Jewish Academy, and as a volunteer for the Upper School Community Service Program.

Mr. Aubry L. Stone

Term expires: 1/1/2005

Mr. Aubry L. Stone is the President and CEO of the California Black Chamber of Commerce. Mr. Stone currently leads the charge of exploring opportunities for new and emerging markets in urban regions throughout California. In addition, Mr. Stone has led the organization on public policy issues, including Proposition 187. He also co-authored the 9th circuit injunction against implementation of Proposition 209 and publicly advocated against brownfields, insurance redlining in the inner city and the impact of bank acquisitions and mergers.



He sits on the boards of the Greenlining Institute, the Pacific Gas and Electric Company's 21st Century Leadership Partnership, the Mercy Foundation, the California Department of General Services Small Business Branch and the Capitol Area Development Authority. He has also served on several boards in Sacramento, including that of the NAACP, the Black Chamber of Commerce, the Metro Chamber of Commerce, the CalTrans Small Business Roundtable, the Mayor's Economic Development Council, the City of Sacramento's Community Service Committee and the District Attorney's Citizen Cabinet.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

Commissioners' Biographies

Gubernatorial Appointees (continued)

Hossein Barry Takallou, Ph.D.

Term expires: 1/1/2006



Dr. Hossein Barry Takallou is the President of Crumb Rubber Manufacturers Company, the largest tire recycling facility in California. From 1988 to 1997, Dr. Takallou was President of TAK Consulting Engineers. He is a registered professional engineer in California and Oregon.

Dr. Takallou is the Co-Chair of the California Asphalt Pavement Association's Recycled Asphalt Committee and a member of the Transportation Research Board, the American Society of Civil Engineers and the International Society of Scrap Recyclers. He is also the founder of the League of Iranian American Voters and a local youth mentorship program.

Dr. Takallou earned a Bachelor of Science degree from California State University, Fresno, and a Master of Science degree and a Doctor of Philosophy degree from Oregon State University.

Mr. Charles C. Woo

Term expires: 1/1/2006



Since 1989, Mr. Charles C. Woo has been the CEO of Megatoys, a Los Angeles based wholesaler that manufactures, exports, imports and sells toys around the world. Megatoys also has a sales office in Hong Kong and manufacturing facilities in Los Angeles and throughout China.

In 1993, Mr. Woo founded the Center for Asian Americans United for Self-Empowerment and currently serves as Chair. In 1994, Mr. Woo founded the Toy Association of Southern California and is a member of the Los Angeles Area Chamber of Commerce, where he served as Chair in 2001. He is also the President of the Workforce Investment Board of Los Angeles and Chair of the Asia Trade Subcommittee under Mayor Hahn's International Trade and Investment Advisory Board.

Mr. Woo earned his Bachelor of Science and Master of Science degrees in physics from the University of California, Los Angeles.



CALIFORNIA COMMISSION FOR ECONOMIC DEVELOPMENT

ACKNOWLEDGMENTS

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